

1 **VIRGINIA TOBACCO INDEMNIFICATION**
2 **AND COMMUNITY REVITALIZATION COMMISSION**

3 701 E. Franklin Street, Suite 501
4 Richmond, VA 23219

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9 **Executive Committee Meeting**

10 Thursday, April 17, 2008

11 11:00 AM

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14 Pocahontas Room
15 Hotel Roanoke
16 Roanoke, Virginia

1 **APPEARANCES:**

2 The Honorable Charles R. Hawkins, Chairman
3 The Honorable Terry G. Kilgore, Vice Chairman
4 Mr. Clarence D. Bryant
5 The Honorable Barnie K. Day
6 The Honorable Patrick S. Gottschalk, Secretary of Commerce & Trade
7 The Honorable Clarke N. Hogan
8 The Honorable Joseph P. Johnson
9 The Honorable Phillip P. Puckett
10 The Honorable Edward Owens
11 The Honorable Frank M. Ruff
12 The Honorable William C. Wampler, Jr.
13 Mr. James C. Thompson

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15 COMMISSION STAFF:

16 Mr. Neal Noyes, Executive Director
17 Mr. Ned Stephenson, Deputy Director
18 Mr. Timothy S. Pfohl, Grants Program Administration Manager
19 Ms. Stephanie Wass, Director of Finance
20 Ms. Britt Nelson, Grants Coordinator - Southside Virginia
21 Ms. Sara Williams, Grants Coordinator – Southwest Virginia

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23 OFFICE OF THE ATTORNEY GENERAL:

24 Mr. Francis N. Ferguson, Deputy Attorney General, Counsel for the
25 Commission

1 SENATOR HAWKINS: Good morning
2 everyone, I'll call the meeting to order. Neal, would you call the roll?
3 MR. NOYES: Mr. Bryant?
4 MR. BRYANT: Here.
5 MR. NOYES: Delegate Byron?
6 DELEGATE BYRON: (No response.)
7 MR. NOYES: Mr. Day?
8 MR. DAY: Here.
9 MR. NOYES: Secretary Gottschalk?
10 SECRETARY GOTTSCHALK: Here.
11 MR. NOYES: Delegate Hogan?
12 DELEGATE HOGAN: Here.
13 MR. NOYES: Delegate Johnson?
14 DELEGATE JOHNSON: Here.
15 MR. NOYES: Senator Puckett?
16 SENATOR PUCKETT: Here.
17 MR. NOYES: Mr. Owens?
18 MR. OWENS: Here.
19 MR. NOYES: Senator Ruff?
20 SENATOR RUFF: Here.
21 MR. NOYES: Senator Wampler?
22 SENATOR WAMPLER: Here.
23 MR. NOYES: Mr. Thompson?
24 MR. THOMPSON: Here.
25 MR. NOYES: Delegate Kilgore?

1 DELEGATE KILGORE: Here.

2 MR. NOYES: Senator Hawkins?

3 SENATOR HAWKINS: Here.

4 MR. NOYES: You have a quorum, Mr.
5 Chairman.

6 SENATOR HAWKINS: Thank you, sir. The
7 first thing I'd like to mention that on your agenda sheet, and if you go
8 down to the Mega-site Development, they will not be here today so you
9 can cross that one out. Now, having done that, there are a couple of
10 things that I'd like to talk about before we get further into the agenda. I
11 received a note from Smyth and Washington County's Regional
12 Authorities dealing with the questions they have about our new policy.
13 We need to make some sort of an attempt to address this. Frank, would
14 you happen to have a suggestion about this?

15 MR. FERGUSON: Thank you, sir. We've had
16 a call about this issue and it's been brought to my attention, along with
17 Stephanie Hamlett, and we looked at this a little bit. I don't know that I
18 have a suggestion, but I think it's a policy call more than a legal call.
19 Ned has reminded me that the Executive Committee of the Commission
20 looked at this question and determined that the Commission as a body
21 wished to have more accountability, if you will, for the TROF funds
22 they've paid out and have some ability to ensure that the monies are used
23 properly and that due diligence has been performed before requests are
24 made. The TROF funds that are requested are for projects that are viable
25 and likely to be successful. Having said that, the question comes to me

1 as legal counsel whether a provision in the TROF agreement that
2 requires the locality or the IDA or whoever the recipient of the funds are
3 from this body, that is a political subdivision, could be held jointly and
4 severally liable for repayment along with whoever the recipient of the
5 funds is or what the private entity might be. As is so often regretfully
6 the case, whether it's a legal question, there is not in my mind at least an
7 absolutely clear answer on this question. The reason is that, to some
8 extent, it's a novel question. I can't tell you how the court would rule if
9 that question became a matter of litigation and came before the court.
10 We are a political subdivision and the Commission a political
11 subdivision as would any recipient of these funds, IDA or locality. In
12 some respect, the court might say, like the Department of Environmental
13 Quality, DEQ, fighting the Department of Social Services, you're all
14 with the state and all one person and you don't have a case in court.
15 That is going to be interesting because you're suing yourself, and it
16 might view it in that same way and it might not. The folks that wrote the
17 letter, counsel for Smyth & Washington Regional Industrial Facilities
18 Authority, are concerned that any agreement that is attempted to be
19 enforced that requires them to be jointly and severally liable would
20 violate sovereign immunity and the Dillon rule principle. I can't say that
21 I'm 100% swayed by that argument, but it's not a frivolous argument
22 either. I don't think it's a Dillon rule problem, and depending on how
23 the language of the agreement is structured, it may or may not be a
24 sovereign immunity problem. The crux of that comment, I guess, is that
25 the language could be constructed in a way to eliminate the sovereign

1 immunity problem, a contractual obligation is essentially what it is. On
2 the other hand, the argument is since you're asking the locality to
3 indemnify the Commission for actions of a third party, that would be like
4 a classic example of the sovereign immunity problem. So, having said
5 all of that, how do you cut the knot? I can't tell you that provision is
6 illegal, I'm trying to pick the right word, it is legal and defensible. I
7 don't think it's clearly illegal. I think there is a strong argument that it's
8 a perfectly legitimate provision. I'm just not going to guarantee that we
9 would prevail if we were ever in court on that. Ultimately, the goal is to
10 have a higher level of confidence in the quality and viability, the
11 likelihood of success of projects that come up like this for the TROF.
12 There are other ways to get the cat out and require a greater amount of
13 due diligence ahead of time and can be more exacting than it is. You
14 could debark localities that fail to obtain or to repay their portion of the
15 TROF plan from future TROF grants and other kinds of economic
16 development grants. All of those may or may not be policy calls; I don't
17 know whether they're good or bad. There are other options to try to get
18 what I assume is the ultimate goal.

19 SENATOR HAWKINS: We have a fiduciary
20 responsibility as you all know, but these applications historically have
21 been one or two, not the exception. Some of the numbers have been
22 inflated in order to get more money, and then we find ourselves not
23 being able to defend what we have funded. We have to have some
24 mechanism for accountability. There is no way we can do this without
25 having some kind of accountability. I would suggest, Ned, if you could

1 discuss this with some of the principals involved and see if we could
2 reach some sort of wording that could fulfill what we're trying to do. If
3 not, we'll have to change our policy, but I would like for you to make
4 one more attempt to try to make everyone understand that we do have a
5 responsibility with these monies and we can't write a check without
6 accountability somewhere.

7 MR. STEPHENSON: Yes, Mr. Chairman.
8 Frank indicated the Commission has rules on this matter with clarity and
9 our county constituents pushed back on it and said they're very unhappy
10 with it. I'm back before you today just to make sure that this is what we
11 want to do. I think the alternative in my mind is that either the county is
12 liable or they are not liable. I don't know if there is any half-way ground
13 there.

14 SENATOR HAWKINS: Well, we've got to
15 determine what is the best route for us to take as a Commission. Barnie.

16 MR. DAY: Thank you Mr. Chairman. Don't
17 localities routinely endorse performance agreements with EDC Recruits?

18 MR. FERGUSON: I'm confident they do.
19 The question is whether or not those manufacturing companies fail to
20 perform its obligations. Is the county obligated to either enforce them to
21 repay the Commission or if they don't do that, repay the Commission
22 without?

23 MR. DAY: It seems to me that essentially the
24 agreements that we end up doing with localities are, in fact, performance
25 agreements.

1 MR. FERGUSON: That's certainly a
2 component of the agreement.

3 SENATOR HAWKINS: You need to keep in
4 mind some of these smaller counties if they were left on the hook for a
5 large sum of money, it's a financial burden they couldn't carry, so we
6 need to be careful for that. I don't know if there is a good answer. Ned,
7 if you'd look into that and come back with something. Our policy is in
8 place until we revise it, but I think we need to look at it.

9 DELEGATE KILGORE: Is the reason this is
10 coming up because we are pushing or trying to collect or file suit or
11 anything?

12 MR. STEPHENSON: We have been trying to
13 enforce the agreement by determining whether or not the promises were
14 met. When we find that the promises were not met, we asked for the
15 refund according to the language in the agreement. Without that
16 language, it's easy for the counties to just stand still and not do anything.

17 DELEGATE KILGORE: I don't know about
18 other Commissions, but I feel there is a difference if somebody goes in
19 and performs and creates 250 jobs instead of 325 jobs, and I think that's
20 a little different. I would agree up to the point that if they just do
21 nothing or did half or less than half, that would be a problem.

22 MR. STEPHENSON: The language in the
23 agreement provides for a pro rata refund for partial performance and that
24 is factored in. I think it's important to note, Mr. Chairman, that what we
25 are seeking today is not enforcement of collections against the counties,

1 what we're seeking is clarity as to whether that county is liable and I
2 think this body could make an enforcement decision later on once the
3 facts in each individual case are available. You can certainly choose to
4 wait, but going into the deal, I want for both parties, the Commission
5 and the County, to know who is obligated if it goes bad.

6 SENATOR HAWKINS: I think you're exactly
7 right. We have a partnership with our localities and that's what we need
8 to do, and we need to make sure they understand that. There are
9 accountabilities that have to be put in place. We can't write the check all
10 the way.

11 DELEGATE KILGORE: I don't have a
12 problem with what Ned said, but going forward, I think we should
13 continue to do what we have been doing.

14 MR. FERGUSON: One of the things that has
15 triggered this conversation is that the language in the TROF agreement
16 amended in July, and the language was changed and that sort of brought
17 this question back up.

18 DELEGATE KILGORE: Mr. Chairman,
19 people get nervous about signing.

20 MR. STEPHENSON: The language was
21 unclear, and as long as the language was unclear, people were
22 comfortable signing it. Once it was made blunt, the county attorneys are
23 pushing back.

24 SENATOR HAWKINS: We have the policy
25 in place and we'll look at it on a case-by-case basis. If you'd go ahead

1 and start conversations with these folks and the industrial authorities,
2 and localities, and the people involved and see what language you can
3 come up with, a better language.

4 DELEGATE JOHNSON: Mr. Chairman, who
5 is responsible for the agreement? Is it one that we lay on the table and
6 you've got to sign this, or do they have a right to alter or amend the
7 agreement?

8 MR. STEPHENSON: Delegate Johnson, the
9 agreement is a form or a template that we inherited or modeled after the
10 DOF Program. I will tell you that part of the difficulty has been, we lay
11 the agreement on the table before the prospect, and everybody that
12 touches it wants to have their way with it. By the time I get it back, you
13 can hardly recognize it. Counsel for the companies and for the county
14 and IDA have all attempted to try to alter it. Now, you can't do that
15 anymore. We allow small changes that are not substantive. When they
16 alter a document, they always do that so as to favor themselves and it
17 lets them out of the contract.

18 SENATOR HAWKINS: Well, we've spent a
19 lot of time on this and it's an important subject. Unless there is
20 something else to be said, let's move on. I do appreciate that.

21 Next, we need to have approval of the minutes of the
22 January 7th meeting in Richmond. It's been moved and seconded that
23 the minutes be approved. All in favor, say aye. (Ayes.) Opposed? (No
24 response.) Before we get into the Massey Cancer Center, I want to take
25 a minute to go over a couple of other things. The Blue Ribbon

1 Commission has met several times. I understand the report will be
2 coming out very soon. That's certainly an important document we need
3 to look at and make sure that it includes all of the things that we want to
4 look at. What I want to bring up is the idea that the discussion on the
5 formulary for Southside and those in Southwest Virginia may think you
6 don't have any interest in this, but you do. Initially, we divided money
7 based on a formulary, and we've been working on several assumptions
8 over the years. Southside has had a local formulary based on the
9 production of tobacco and jobs provided by tobacco manufacturers.
10 We're beginning to look at the possibility of doing away with that and
11 look at the impact to the community as well as everything to give us
12 more flexibility dealing with local problems. If we do that, it has been
13 suggested, and I do not disagree, that we need to go back and restructure
14 the entire committee system. Much of what we did in the original
15 committee structure was to put in place subcommittees that would take
16 money off the top to void the formulary aspect of it, and we've been
17 very successful with that. For example, if in fact we wanted to do
18 something different, we could take agriculture and let that committee in
19 place but do not give them a budget and let them present their
20 recommendations to the Full Commission. We could vote on it and
21 handle it at that point and fund those things that we think need to be
22 funded, or we could roll all of the committees into the Commission as a
23 whole, which I think is a poor way to do a business, especially with a 31-
24 member Commission. No matter what we do, particularly Special
25 Projects, if we do away with Special Projects, and roll that into the

1 Commission itself, we would still need a committee in place that would
2 work between the two localities to make sure we could fund those things
3 that have a by-regional affect on all of us. I would not be in favor of
4 anything that would cut out the dialog between Southwest and Southside
5 Virginia to be able to deal with projects like the telecommunication
6 piece and things we have been able to do across jurisdictional lines.

7 So what I'm asking that you do for the next several weeks
8 or so is to come up with some ideas that you think would work in the
9 formation of putting together a new structure that would reflect what the
10 Commission is today rather than what we were 8 years ago. I think
11 realistically, the indemnification is set aside and we know how to handle
12 that. The committee structure itself was basically to make sure that there
13 was funding allocations up and that there was funding allocation beyond
14 the formulary to deal with problems. If Southside does away with the
15 formulary and goes to a different process of being able to judge those
16 processes based on the merit of the project as well as the impact to the
17 localities. It was asked to me if there was something in place to take
18 care of what we would replace and the answer is yes. We have the
19 Southside Economic Development Committee and Mr. Owens and his
20 committee have the ability to deal with these things based on what the
21 recommendations are from the community rather than an arbitrary
22 formula, if in fact we do away with that which gives a real filter for the
23 entire region to have an opportunity to make their presentation before the
24 subcommittee of economic development. I think that adds a lot of
25 stability to the system, plus the overall Commission could be appealed to

1 if something is turned down arbitrarily that they think. So there are a lot
2 of things we need to start thinking about. That's one of the real
3 differences in the way we operate or have. It's also been suggested that
4 the structure of our meetings, for example, you're talking about \$15,000
5 to have a Commission meeting; we have four a year. It's been
6 mentioned that we could possibly have three meetings a year, and if
7 that's the case, we will eliminate part of the access that the Commission
8 has. I was initially in favor of it, but we do away with some of the
9 committee structure and go to a different sort of animal, we'll probably
10 need at least four meetings with the Commission to make sure everyone
11 feels like they're part of the discussion. I don't want anyone to feel that
12 they're left out of any important decision or discussion. Under my
13 instructions, the Executive Director went around and talked to people
14 about the very aspects of doing away with the formula, and his report
15 back is that there are all kinds of ideas plus to stay the course where we
16 are today, which I don't think is feasible. His suggestions came back
17 from discussions that we could do various things, and I've mentioned
18 those about the committee structure. Please think about things we can
19 do to improve the way we do business. We're beginning to look at
20 things now entirely different and with the recommendations coming
21 from the Blue Ribbon Commission, let's see if we can't fold those into
22 the overall structure we're dealing with and come up with a better
23 system to deal with problems we're facing from now on. Also, let me
24 emphasize that we must make sure that the mechanism for the two
25 regions to work together for projects that benefit both. Anything we do

1 to cut one off or to isolate it from the other is to the detriment of our
2 communities. I don't want to be part of that.

3 Now, having said that, the next item is the VCU Massey
4 Cancer Center.

5 SPEAKER HOWELL: Mr. Chairman and
6 members of the Commission, I appreciate you giving me a couple
7 minutes to present something to the Commission that's really near and
8 dear to my heart and I suspect everybody in this room. That is the
9 tremendous steps that we are taking in Virginia for research to fight
10 cancer. We have two institutions in Virginia which is the Massey
11 Cancer Center, some of you may be familiar with in Richmond, it's part
12 of Virginia Commonwealth University, University Hospital Center, and
13 The University of Virginia Cancer Center in Charlottesville. These two
14 cancer centers are probably among the top 50 in the country, and they're
15 very deserving of any support that we can give them. Candidly, and
16 that's why we're here today, and I would like for Dr. Ginder and Dr.
17 Michael Weber of the University of Virginia Cancer Center to speak
18 briefly about what they're doing and how that relates to your
19 constituents in Southside and Southwest Virginia.

20 DR. GINDER: Thank you, Mr. Chairman, for
21 this opportunity. Dr. Michael Weber is here on behalf of UVA, and he'll
22 chime in if you have questions. We'll both be glad to answer them. I
23 guess one of the basic messages that I want to deliver to you today, is
24 that cancer is taking a heavy toll in Virginia and in the nation as Speaker
25 Howell said. One out of three women and one out of two men will be

1 affected by cancer. Basically, every one of us will be affected. That's
2 about half a million deaths in the United States every year from cancer,
3 14,000 deaths in the state of Virginia. Beyond the human death and
4 suffering that occurs from cancer, there is also a huge economic loss
5 associated with that. It's been estimated that the 14,000 cancer deaths in
6 Virginia alone resulted in about a \$2.7 billion economic loss in year
7 2007 based on the productivity and future earnings of those individuals
8 that are stricken down during their economic prime. Those losses from
9 cancer, both in human suffering and economic losses, are
10 disproportionately high in the 41-county area served by this
11 Commission. That is because of the 35 health districts in the state of
12 Virginia, 4 of the top 11 in cancer death rates are in the Southside and
13 Southwest Virginia counties that represent this 41-county district. It's
14 also among the highest cancer death rates in the United States, and this is
15 a serious problem that needs to be addressed. The best hope for that is to
16 do cancer research to reduce both the human suffering and death and the
17 economic loss from cancer. As Speaker Howell said, we have two
18 national cancer designated centers in Virginia, The Massey Cancer
19 Center at VCU and the University of Virginia Cancer Center. These
20 centers are dedicated to making research discoveries and bringing those
21 discoveries in cutting edge new treatment detection to the citizens of
22 Virginia first. This has a huge impact because it allows these new
23 advances and new treatments for detection and prevention to come here
24 first and not have the citizens in Virginia, including those in the 41-
25 county area, to have to travel outside the state to get cutting edge

1 treatment. Both of us have research programs that really take
2 discoveries and bring them to new treatment. In our own case, we have
3 trials that we develop to go on to other centers like John Hopkins and N.
4 D. Anderson, they're available first here in Virginia without having to
5 travel. Not only the inconvenience of that travel, but the economic
6 impact as well. I'd be glad to get into the science of that and the Q&A,
7 but I don't want to put you all to sleep at the beginning of your meeting.
8 These are scientific new discoveries that are brought about for new
9 treatments for cancer.

10 I'll also say that other states surrounding the
11 Commonwealth are investing millions of dollars a year in cancer
12 research, but whatever the case, we need to bring this cutting edge
13 research for treatment and prevention to our citizens so they don't have
14 to leave their areas to get that cutting edge treatment. The kind of
15 sustained funding that can come from a source is really absolutely
16 essential for us to maintain our centers at that edge so we can be in that
17 top group of cancer centers in the country and able to bring this to our
18 communities and our state. So on that basis, we're requesting that you
19 give us consideration for funding.

20 I don't know if Dr. Weber has anything to add, but we'll be
21 glad to take any questions you have.

22 DR. WEBER: I think it's been said, we have a
23 lot of people who drive to Charlottesville from the area served by this
24 Commission which includes three, four, five, or six hours to get that
25 care, and we'd like to find ways of bringing the care to them, and we just

1 don't have the resources to do it.

2 DELEGATE KILGORE: Doctor, you say
3 other states are investing in cancer research, can you give me an
4 example?

5 DR. GINDER: North Carolina is probably
6 giving 25 million a year in cancer research and that will go to \$50
7 million a year to be sustained for a 20-year period. In Maryland, it's in
8 the tens of millions that they have invested in cancer research.
9 Kentucky, being another comparable state, about 10 million goes to
10 cancer centers, neither of which is an MCI designated center.

11 MR. BRYANT: What level of funding are you
12 asking from the Tobacco Commission?

13 DR. GINDER: That's a good question,
14 obviously, the need is great and Speaker Howell--

15 SPEAKER HOWELL: --I've talked to some
16 members of the Commission separately, and I think that if the
17 Commission could see fit to find a million dollars for each of the two
18 centers, that would certainly help. They can do a tremendous amount of
19 new research and new development with a million dollars each.

20 DR. GINDER: That's money that we can
21 actually get multipliers. That gives us leverage to bring in major
22 national cancer institutes and other federal funding for research which is
23 often five or ten fold amplification of those dollars. It also leverages
24 with private philanthropy. We operate as a public, private trust, and
25 that's how we're able to do the research that we do. We couldn't bring

1 this to the Commonwealth without that. Every dollar we get from an
2 agency or the state gives us leverage with both private philanthropy and
3 the federal government.

4 DELEGATE JOHNSON: Sir, suppose that
5 you get some money, will you have the ability to leverage money from
6 other sources to match what we give you?

7 DR. GINDER: Yes, a private philanthropy is
8 one of the things that comes immediately to mind. This is the kind of
9 dollars that really get the private philanthropy people inspired, or state
10 agencies also put money into this.

11 DR. WEBER: There is also infrastructure that
12 can be built in terms of clinical trials that network. There is no other
13 funding source for that. That serves as the magnet in getting federal
14 research grant money as well.

15 MR. THOMPSON: If you live in far
16 Southwest Virginia, it's much closer essentially to go to other states or
17 other localities for treatment than Charlottesville. You said you were
18 interested in bringing that care to those areas as opposed to the reverse.
19 I'm interested in knowing a little bit more about what your suggestion is
20 there.

21 DR. WEBER: I'm speaking in terms of
22 developing a partnership with Johnson Memorial in Abington. We have
23 very active medicine programs. Johnson Memorial is now hooked up to
24 that. We're working together between the two institutions. Our hope,
25 and this is the kind of thing we want to invest in, it's going to take a

1 couple of years to make it happen, but our hope is that we can have
2 patients come to Charlottesville for their analysis and initial work-up and
3 then the follow-up treatment for at least those things that's possible
4 could be done at a local community hospital. It would be hard to do
5 some of these things with a private practice. If you have a facility like
6 Johnson Memorial which is a serious institution, you can have a
7 sophisticated partnership, but you've also got telemedicine on a regular
8 communication with physicians in Charlottesville. That's the vision.
9 There is really nobody else other than the state and organizations like
10 this willing to invest in that.

11 DR. GINDER: Just to give you an example,
12 our cancer center has gone to Emporia in Southside, and actually, we
13 sent our specialist out there to do the kind of thing that Dr. Weber is
14 talking about, to give an initial evaluation also in Petersburg. We have a
15 track record of being able to do those things.

16 SENATOR HAWKINS: Let me ask you about
17 the research going on in the research facilities. Is there a sharing of this
18 research to make sure we're not trying to reinvent the wheel?

19 DR. WEBER: Yes, I'm just coming back from
20 a national meeting where the entire country is sharing it.

21 SENATOR HAWKINS: If the same research
22 is going on in 40 different places, there should be some sort of
23 clearinghouse to make sure that everyone is not conducting research in
24 an area that's just being duplicated and that which has already been done
25 somewhere.

1 DR. WEBER: Absolutely. We have a lot of
2 mechanisms for trying to communicate with each other and what it is
3 that people are doing. The funding agencies are very conscientious of
4 trying to not duplicate those things.

5 SENATOR HAWKINS: Particularly, the
6 research universities, are there any turf problems that we have to deal
7 with that comes to sharing this information?

8 DR. WEBER: I think both Gordon and I have
9 this little motto that our adversary is cancer and not other cancer centers.

10 SENATOR HAWKINS: As you well know,
11 cancer affects more than its share of people. We all can cite good
12 examples of what can happen.

13 DR. WEBER: There is institutional
14 competition but it does not extend to our level.

15 SENATOR RUFF: This sheet you passed out,
16 the statement indicates ongoing support. Are you looking for something
17 for multiple years?

18 DR. WEBER: Referring to the previous
19 communications about performance evaluations, I don't have a problem
20 with the performance evaluations as long as we have enough time to
21 perform. This is something that's going to take at least 3-5 years before
22 we see the impact.

23 DR. GINDER: These kind of operations have
24 a build up time and then a yield time, and if you cut it off too early, you
25 do not get the yield, that's correct.

1 SENATOR RUFF: So you're asking for a
2 multiple year basis?

3 DR. GINDER: We're asking for an initial
4 investment, and if this builds on success, we're hopeful that could be a
5 consideration.

6 MR. OWENS: Other than quality jobs and
7 quality service, are you creating new jobs in Emporia and Grundy?

8 DR. GINDER: It could create jobs in the sense
9 of clinical partnering with us, but the impact I tried to stress in my
10 presentation was in areas where you clearly need a trained workforce.
11 The 2.7 million invested in the Commonwealth, a lot of that is in the 41-
12 county region, but that certainly has an affect on businesses.

13 SENATOR HAWKINS: There is nothing
14 more important than health care. Nobody is going to come to areas
15 without adequate healthcare today. This is the top of the pyramid so it's
16 very important.

17 DELEGATE HOGAN: I've got a two-point
18 question. If we were to grant this million dollars for each center to help
19 serve the citizens of Southside and Southwest Virginia, is that doing
20 research or is it more focused on what they're doing in Abington? Is this
21 going to help these areas? It sounds do me like what you're doing in
22 Abington for research in terms of how you provide the services, I don't
23 have any problem with that. Is that how you would contemplate this
24 grant being awarded? How does this thing in Abington work?

25 DR. GINDER: Abington is one thing, but let

1 me talk about Southside Regional where we provide both specialty
2 expertise, but also availability of cutting edge information. Having that
3 connection with the national cancer institute to provide that kind of
4 service which is above and beyond, which is beyond what you can get in
5 a standard community, bringing it to the region so that they don't have to
6 travel for hours and hours. Often, they don't do it because of economic
7 reasons or logistical reasons, so they're not getting the cutting edge care.
8 When we do the clinical trials, it represents the best available care.
9 Sometimes it's years before it's available as standard treatment and
10 standard cancer practice. As a practicing oncologist, I can tell you that
11 these patients are put on trial. Sometimes they're very early stage trials
12 right out of research projects, and we're able to save people that way and
13 give them survival and quality of life that may be years away for other
14 people outside of the region because they don't have that trial. That's
15 really a lot of how that would be done.

16 DR. WEBER: I'd like to reinforce that. That
17 is the key issue. We're in a molecular biology revolution where what
18 you might call the cutting edge, and it's really experimental and it's still
19 in clinical trials coming out of the research. That's what is saving
20 people's lives.

21 DELEGATE HOGAN: What's the posture of
22 this application?

23 SENATOR HAWKINS: I think we need to
24 make sure this application goes to Special Projects and to look at it.
25 That's certainly something that would qualify for Special Projects.

1 Hopefully, we can come up with some way to fund some parts of this.
2 It's something that we certainly have an interest in, but we've also got to
3 make sure that it falls within the parameters of the code.

4 DELEGATE HOGAN: If an application came
5 in and said, "Cutting edge research in Southside and Southwest Virginia
6 to serve the citizens in those areas," would that meet our standard?

7 SENATOR HAWKINS: We can accept any
8 application we want to. With this application we're talking about and
9 dealing with this subject matter, that will certainly have the ear of the
10 Committee. I would think Special Projects would understand the
11 importance to at least look at it based on what we've talked about rather
12 than the application itself.

13 SENATOR WAMPLER: Mr. Chairman, I'll
14 be as quick as I can and respond. I can't speak for Southside, but if you
15 take the model of what Southwest has done to be a partner and an anchor
16 tenant, and that would be the hospital like Johnson Memorial. When
17 you do that and you have that willing partner, you won't have to
18 duplicate costs. While you would initially go to Richmond or
19 Charlottesville, the quality of life and quality of care is greatly impacted.
20 Delegate Hogan's comment, "Does that meet our statutory
21 requirements," I would say it's very much driven by technology. We
22 have the pipeline available. The question is how do we utilize it to
23 improve the quality of life for the citizens? I would say that's why we
24 invested the money we did in fiber optics, and it's just pretty amazing
25 what the host site can do in the treatment. The last point I would make is

1 that it is not necessarily the direct care that comes out of this pipeline at
2 the remote sites, but it is the availability, not just for the patients but for
3 clinicians that have the continued professional development for the
4 oncology treatment or any associated care thereto. It opens up all kinds
5 of opportunities. I would say that meets our market as much as anything
6 else we have done in this Commission. I would think it would satisfy us.
7 Where we go beyond year one, when I say the question is and not an
8 adversarial question, but it remains to be seen. I understand what the
9 two institutions are proposing, and I would say it meets the mark.

10 DELEGATE HOGAN: One more question. Is
11 this something you think Special Projects would look on favorably?

12 SENATOR WAMPLER; It's strictly regional
13 in scope and not benefiting one locality, and I certainly think that meets
14 our requirements. I prefer a one-time non-reoccurring capital expense.
15 I'm not sure that's the entirety of it.

16 DELEGATE JOHNSON: Mr. Chairman and
17 members of the Committee, as most of you know, I'm a cancer survivor
18 myself. Dr. Swan in Abington, I took my chemo for a year. I go for a
19 scan tomorrow. I've gotten up at 3:30 in the morning in Richmond to
20 drive back to Abington for a scheduled appointment. When you talk
21 about the misery of pain and suffering, that's one thing. Anything that I
22 can do to make sure that people in the future don't have to go through
23 what I've gone through, I will support. I think it's needed and it's
24 something to do with saving lives. People having to suffer through pain,
25 I will try to support. Tobacco is known to cause some of that and there

1 is no question about it. I do not, Tobacco is known to be a problem as
2 far as cancer. I don't recommend tobacco, but in 1953, I was in the
3 service involved with testing the Hydrogen/Atomic bomb, and I came
4 back and I lost my hearing. When I started taking the chemo, it comes
5 back again. I had to get a hearing aid. Anything we can do to make sure
6 that people don't go through what I've been through, I thank God I've
7 had friends, and I support this endeavor.

8 SENATOR HAWKINS: As you can tell, we
9 have a real interest in this, and it's just a question of making sure we can
10 work it into the way we do business. I think we can. Get the application
11 together and we'll work on it the best we can. We'll find out exactly
12 how we can best handle this, and it's an important subject to all of us. I
13 thank you all for taking time to come here, and I look forward to
14 working with you. Mr. Speaker, it's always a pleasure.

15 SPEAKER HOWELL: Thank you all.

16 SENATOR HAWKINS: All right, next is
17 Research and Development Centers.

18 MR. WINFIELD: I'm Mr. Dan Winfield with
19 RTI International, and that stands for Research Triangle Institute located
20 in North Carolina in the Research Triangle Park. I appreciate an
21 opportunity to address the Commission today. We've been engaged by
22 three host organizations in Virginia to help develop businesses and
23 operational plans for the regional energy innovation centers to develop
24 these plans in a way that it will assure that they address the important
25 applied research and development priorities in the energy field. Also,

1 trying to contribute to regional economic development and address some
2 of the issues in Southside and Southwest Virginia in that regard. So I've
3 been asked to give a combined perspective of the three centers as a
4 combined initiative, and I'll try to move through that as quickly as
5 possible. Neal has indicated 15 minutes is where he might cut me off.
6 This is a vertical realignment depicting the energy requirements and it
7 relates to the environment as shown. This also relates to energy security.
8 I could stand up here and give you a thousand drafts of the issues, but
9 you really have to only think about your pocketbook when you're at the
10 gas station. You know we have interesting issues relating to supply and
11 demand. What you may not know is that oil production globally peaked
12 in March of 2005. There is physically no way to bring enough new oil
13 wells on line in production to counter the declining production of all of
14 the existing oil wells. So oil production will continue to decline going
15 forward, but yet the global demand for energy is going to double by
16 2010. It's important that we do all we can to address that gap. The
17 environmental side is also important and this is a real issue in China, but
18 it is also a global issue in terms of the carbon footprint that we're
19 generating from fossil fuel. We need to be looking at ways to improve
20 and reduce the carbon footprint from those fossil fuels and look for
21 alternatives and renewable energy sources. When we look at energy
22 security, we can see what's happening in the Gulf region in terms of the
23 security for our energy supplies and our dependence upon those supplies.
24 Also, economically, aside from a security situation, there is a lot of
25 money flowing from the U.S. to places like Dubai. There is an amazing

1 flow of funds heading in that direction, and the more we can address our
2 own needs and address those critical issues as well.

3 The Virginia energy plan addressed this quite well, and I'm
4 sure some of you had a chance to take a look at that. It set objectives of
5 20% increase in in-state production of fuel supplies and energy supplies
6 in Virginia in the next 10 years. It indicated investment in certain
7 technologies with these centers aligned with three of those technologies.
8 From an economic development standpoint in the Southside and
9 Southwest regions, we've seen a decline in manufacturing facilities and
10 textile and furniture production. We've also seen a decline in tobacco
11 production and a lot of agricultural land is not being utilized these days.
12 The expanded impact of that is a decrease in regional economy and it
13 affects service industries and retail industries as well. We want to do all
14 we can to try to address those critical needs.

15 What we're referring to consists of three centers. The
16 Southwest region associated in Abington would be a center focused on
17 coal and natural gas industries, and that's related to coal to liquids and
18 coal to gas.

19 SENATOR HAWKINS: Those three centers,
20 what type of mechanism do ya'll use to achieve those three?

21 MR. WINFIELD: They had each applied for
22 grants a year ago, and this is activity that's being conducted with use of
23 those planning grants. I don't know what transpired prior to that that
24 initiated planning grants funded by the Commission some time last year.

25 DELEGATE HOGAN: The question that he

1 doesn't know the answer to, I would like to know who in here does.

2 MR. NOYES: I have talked to people at each
3 of those locations for the past 5, 6, or 7 years, about an R&D footprint
4 and with Virginia Tech and University of Virginia, both coming to the
5 Commission and these were the locations that I was encouraged to
6 include in the original discussion about doing this and went to Special
7 Projects.

8 SENATOR HAWKINS: I think the emphasis,
9 or this is probably the first time we've all had a presentation of this
10 program based on the information that we've seen today, and we have to
11 go through the entire system. We have to make sure it meets the
12 standards that we put in place. This is just suggestions made. One thing
13 I would like to say about the institute in Danville, we have ongoing
14 research programs with the Commission dealing with the bio-diesel in
15 the Chatham area and we're putting a facility up right now. That will
16 start the process about what we can do in our area. I want to make sure
17 that anything we deal with that we have a partnership that actually works
18 with the ongoing Commission, the ongoing commitments we've already
19 made, as well as the research that will be taking place. We also need to
20 very well state more than once that access to the research facility that we
21 are funding by the Commission to do those things that we need to do to
22 be able to and there needs to be an open door policy and not be caught
23 up in any bureaucracy that might take place at that institution. That
24 would trouble me. Are there any other comments?

25 MR. BRYANT: I really didn't want to get into

1 it right at this point, but I chair the Bio-Energy Oversight Committee and
2 have been very involved with the three institutes that are dealing with
3 this bio-energy project. The one that Senator Hawkins just talked about
4 in the Gretna Windy Acre site, we have talked to the institute about
5 working with us on tissue samples to propagate because we need plant
6 material that we can plant for this bio-energy. This institute is in place,
7 the laboratory is in place, and I assume the personnel are in place, and to
8 this point, we have not had that cooperation. Because of the timeframe
9 that we are trying to move this project forward, we are now going to
10 look at an entity in Florida to bring this to us rather than using the
11 institute and that troubles me. We need some dialogue and we need
12 some answers to these questions, especially if we're going to go forward
13 spending more money for the project in Danville. We really don't
14 understand why this breakdown has happened. I'll give you another
15 example. I know of two cases where private business has gone to the
16 institute and they have asked that the laboratory do work for them and
17 they're willing to pay for it and that has not happened. If we're going to
18 spend this kind of money in our region, we need to be supporting the
19 community. I think that is what this was all about, but I can't give you
20 that testimony. What I have laid on this table is fact. I'm not going to
21 bring you something that is hearsay.

22 SENATOR HAWKINS: There needs to be
23 discussion although I realize you have nothing to do with this. You
24 happened to be convenient and I can appreciate that. The institute needs
25 to understand that we want to be a full partner with them with the things

1 that take place and if we plan to invest more money in any research, we
2 need to make sure that there is some understanding of the needs we face
3 and make sure there is not an arbitrary wall built up in the conversations
4 between the Commission and those research institutes because we are in
5 the same ballgame together.

6 DELEGATE HOGAN: I've got several
7 questions for this gentleman and comments, and I don't know if you
8 want to let him finish his presentation.

9 SENATOR HAWKINS: What's your
10 pleasure?

11 MR. WINFIELD: I'd like to go through with
12 my presentation if I can. When I come to the center in Danville, I can
13 address a couple of your points.

14 SENATOR HAWKINS: Please continue,
15 sorry we interrupted you.

16 MR. WINFIELD: In addition to coal and
17 natural gas in the Southwest, a nuclear energy center would be adjacent
18 to Lynchburg and the sustainable energy center in Danville, and that
19 would be in the bio-fuels and bio-based products. Before I address each
20 one of those individually, I wanted to cover, as part of this, RTI has done
21 a lot of work in technology based economic development is the
22 terminology. Looking at how states can invest research and
23 development dollars to stimulate economic growth, there is actually a
24 real strong track record of this. We look at best practices and we look at
25 benchmark centers. These centers contribute to economic development

1 and New York is really an exemplary example. \$240 million of
2 investment, they've been able to track and make almost \$6 billion of
3 economic impact. They also attract industry partnerships which is really
4 important for assuring that the applied research that is going on really
5 gets targeted at economically relevant activity. They also attract other
6 funding sources. If you look across the nation at these kinds of centers,
7 it's about a 1:3 leverage, funding that might be invested by a state able to
8 leverage that three-fold in funding from industry or the federal
9 government or other local funding sources. The research institute in
10 Nevada is an example of how they had achieved a little over of that 3:1
11 ratio. They have contributed to new innovations and there was a center
12 in Oregon that was founded. It isn't a bad model to look at here.
13 They're now running collectively a \$27 million R&D operation and
14 generating medical breakthroughs in this case for the marketplace.
15 These three centers, I've got some real quick slides on these. I won't go
16 into too much detail. I'll kind of state the mission of each of these
17 centers and focus on accelerating commercial application and research in
18 coal and natural gas. In the Southwest center, they're focused on
19 research areas and have been identified in carbon management, coal and
20 methane recovery, and then there a number of industry identified
21 research projects, shorter term projects that industry wishes to pursue.
22 They've been associated with industry advisory groups to identify these
23 opportunities that the center can play that will make short-term impact
24 for the industries in that region, then providing work force development
25 assistance in key areas for that industry sector. There are a number of

1 key partners including Virginia Tech, the University of Virginia, and the
2 community colleges in the region. There is extensive involvement in the
3 number of different industry partners across pretty much the full supply
4 chain in the coal industry. There are a number of national organizations
5 they expect to work with as well.

6 This is a quick illustration and layout of the facility as they
7 propose to construct it. This would either be attached to or adjacent to a
8 current higher education center in Abington, a 17,000 square feet which
9 is a mixture of lab and office and classroom space. Likewise, the
10 Nuclear Energy Research Center has been engaged heavily with the
11 industry in that region to lay out a set of research objectives. These
12 seem to be focused in areas that are around material sites and digital
13 electronics as new power plants become more and more digital
14 technologies, including wireless technologies. There are a number of
15 different areas of research there, and they have a significant connection
16 with Babcock & Wilcox partnership here as well as Virginia Tech and
17 the University of Virginia. Liberty University has plans for an
18 engineering program that they're looking at building. There are a
19 number of partnerships that they have identified there.

20 This facility layout here is in a two phased process for a
21 total of 24,000 square feet, which is a mixture of lab, office, and
22 classroom facilities. Then the sustainable Energy Technology Center in
23 Danville. They're really focused on bio-fuels and bio-based products.
24 They want to do this with research and development of alternative crops.
25 The first part of the objective is to engineer new crops that will increase

1 the efficiency of conversion either to bio-fuels or other bio-based
2 products. Bio-based plastics would be a classic example. The key is to
3 recognize through the discussions that service and engagement to the
4 agricultural community and businesses that wish to create and get
5 initiated in this region is an essential element of this center. That's been
6 established in the plans for this center. I can't speak to what has
7 happened to date, but based on the plant biology R&D, they're trying to
8 take these new steps and engineer new crops and outreach through the
9 farming community and help them in developing those and then
10 supporting the businesses that wish to get creative in the
11 commercialization of the technology in this center as well as other
12 technologies. It might offer the opportunity to initiate new business
13 creation. Their partners are identified there. A smaller set of industries,
14 and this is more of an emerging field as opposed to an existing industry
15 that is established. The farming community is identified as a key
16 element to the industry if we can use that term. This is a 27,000 square
17 foot facility. It includes office and lab space within that facility, less in
18 terms of classroom since the ILR already has extensive classroom
19 facilities in their main building. Collectively, these centers are really
20 aligned to address three of the five sets of energy technologies the
21 Virginia plan advocated. So these are put forward for funding requests.
22 This is a construction funding request and this is an accumulative total
23 for the three centers. I'm afraid I'm in between some of you and I guess
24 I should move around so you can see this. Notably, our analysis of the
25 research and development opportunities and the industry partnership that

1 could be created is used to guide what type of facilities need to be
2 created, what capabilities there are, and those were used to work with
3 A&E firms to develop an initial construction estimate for the facilities.
4 So these are the figures and the cost share available from each of the
5 centers. The one from Southwest is not yet fully determined. That's
6 why it's not listed in the dollar amount column, but it's somewhere
7 between 200 and 700K, depending upon the final choice they want to
8 make in terms of the location and the facility and what it takes for the
9 existing site preparation. A total of 24 million, collectively, across for
10 the three centers is requested.

11 We've also done an income summary in a five-year wrap up
12 here and then an ongoing amount. So these are annual income
13 summaries projected for these centers, the latest chunk being federal
14 grants and contracts in this field, and these figures are for all three
15 centers combined. The state funding would decline after the wrap-up
16 period, but state funding is identified as one of the issues that will need
17 to be addressed in the start-up and wrap-up phase of these centers to
18 assure they get off on a good start. So this is an investment, and the
19 Commission and Commonwealth deserves to understand what the
20 potential impact of these investments is. We've engaged a consulting
21 firm. After we've provided data on what the centers would be doing and
22 the type of incomes they would expect to generate and the cost side of
23 that as well as how the income would be used in terms of research and
24 administrative operations. We went forward with an economic impact
25 analysis. The first element of that is the direct and indirect affects to the

1 construction and then the operation expenses of the center through the
2 additional impacts on the economy, creating 900 jobs and 88 million
3 across Virginia. The second element of the economic impact is the
4 affect these centers will have on the existing industry and the emerging
5 industry. While this is difficult to project as far as the analysis, we
6 speculated that if we increased \$10 million in economic output or
7 essentially revenue for each affected industry cluster, then we multiply
8 those affects through the economy, this would result in about another
9 thousand jobs across Virginia. That number is a little speculative
10 because you don't know how much you're going to improve the
11 competitiveness of that industry. There the kind of multiplier affects can
12 be realized. The center will contribute to R&D spin-offs, new
13 companies are created, technologies will get licensed to existing
14 companies, and it's projected about 250 new jobs and \$11 million of
15 licensing income to the organizations involved here and beginning to
16 support ongoing operations of these facilities through those income
17 streams.

18 The affect of all of this or the impact is to reduce the
19 demand on imported energy supplies in Virginia, and that's an impact
20 that would have a monetary affect.

21 In summary, these centers are an investment to the well
22 being and prosperity for future generations of Virginians, and thank you
23 for your consideration.

24 SENATOR HAWKINS: Thank you very
25 much. I think we all have a keen interest in this, and we might not fully

1 understand this but we need to start weaning ourselves from that. We
2 also understand that this is going to require a great deal of money, and
3 we're going to have to make sure there is an understanding where the
4 Commission stands in this, and we get into discussing the details.

5 DELEGATE HOGAN: I have a couple of
6 comments, but in looking at these proposals, the concerns I have about
7 this project, is this a, what is the posture of this, Mr. Chairman, is this an
8 application you want us to act on?

9 MR. NOYES: There is no application. This is
10 the result of the grants provided through Special Projects to define what
11 the issues associated with energy initiatives for the Commission.

12 DELEGATE HOGAN: Looking at the three
13 projects, I don't know a ton about each one of them. I know bits and
14 pieces, but it is absolutely clear to me that on the one in Southwest,
15 they're doing the coal technology and that makes a lot of sense. I
16 understand why the coal companies would be interested and why a lot of
17 people would be interested. It's real easy to get a grip on that one. The
18 project in Bedford, or certainly the information provided here, I don't
19 know what we're doing based on that. Is that research and
20 development? The nuclear development industry is a multi-billion
21 dollar, I'm not sure this is going to have a whole lot of impact in the
22 scheme of things, and that's a question. I don't know the answer to it.

23 SENATOR HAWKINS: Lynchburg has had a
24 nuclear presence and it goes back for many, many years. This is
25 building on some of the infrastructure that's already in place and trying

1 to compliment some of the research that's happened at Babcock &
2 Wilcox. I think it give us a place at the table when it comes to the
3 nuclear energy piece of it because nuclear, like it or not, is part of our
4 future in one way or the other. We've got to figure out how to deal with
5 it and hopefully, this research lab will come up with a way to use it.

6 DELEGATE HOGAN: Mr. Chairman, I guess
7 along those lines, with the labs that Caltech and MIT and University of
8 Chicago have not figured out fusion, and I don't know the answer, but
9 what I'm saying is, rather than doing nuclear energy research which is
10 more or less what that says, you're talking about something that I think
11 is far beyond, with all due respect to Liberty University, I'm going
12 somewhere with this if you will allow me. In terms of the institute
13 project and problems that C.D. Bryant has brought forward, which I
14 think are real and have to be addressed, I don't doubt that the
15 development of renewable energy and the micro, I understand that to a
16 point, although these things really have to be addressed as C.D.
17 mentioned. I am familiar with this fuel project that he's been involved
18 in and had answers two years ago that we don't have now. With that
19 being said, this is the first that I've heard about this for a couple of years,
20 but what sort of application process have we set up? You've got the
21 three institutions that Neal is working with. Now, we've got an
22 application for \$24 million. Have we asked anybody else to apply and
23 looked at what's available? As far as I know, we have not. I guess that
24 concerns me. We could run into a fair amount of resistance and here we
25 are. Some of this makes more sense to me than others. But before we

1 dump \$24 million out there without doing more chatting about it, that
2 concerns me.

3 SENATOR HAWKINS: Well, a couple of
4 things that you commented on. For example, with the nuclear piece,
5 with the technology in Danville, and they're coming up with a problem
6 of commercial production of the nano piece or the carbon pieces to do it
7 because of something that they have to develop to create these things. If
8 in fact we could use the nuclear component to create the type of furnace
9 that they need, it could work, I don't know. There are thousands of
10 things out there that we need to think about that are not necessarily part
11 of the discussion today. As for how we select the site, remember that
12 this Commission as well as the state of Virginia, as well as a lot of
13 localities have already invested millions and millions of dollars into that
14 institute to try to get a generation of new ideas coming out of that for the
15 entire region. If you already have something in place that is funded and
16 staffed with the Ph.D.s that we need would be in my mind fool hardy to
17 go out and reinvent the wheel. That's just my opinion. Now, having
18 said that, any other comments?

19 SENATOR WAMPLER: The concept of
20 enabling research and development in Southwest has gone on for a long
21 time. We've been through that discussion for a number of years trying
22 to find out what the proper area that we'd like to further research and/or
23 how we're able to monetize that research and commercialize that
24 research in a timely manner is something that we've talked about a
25 number of times. I can only speak to the center that we've proposed. I

1 would start by saying that it be a one-time capital, non-reoccurring, and
2 an operating budget is another matter for another day for other entities to
3 determine. Carbon sequestration is a technology that maybe can't be
4 done economically, but we believe that's what we need to try to
5 determine through the research project. When you have critical mass of
6 a host site and when you have research institutions that are willing to
7 participate, where you have critical mass energy companies that are
8 willing to participate, and you have state and federal research dollars that
9 are targeted there, we think it makes a lot of sense to do that. We would
10 also design the center generically to where we would want to have part
11 of that center to have software engineering, primarily through the
12 University of Virginia to be a component of that research that could be
13 co-located there. I would say what the Commission needs to be focused
14 on, or I would suggest what the Commission needs to be focused on is
15 do we want to be an enabler of research or do we want to jump start? If
16 we do, where do you want it located and who would the various partners
17 be? It may be that we need more than three centers, but right now, I
18 don't know within the budget restraints we have how do we do more
19 than three centers at this time. It may be that and the reason we need to
20 do it in Southwest sooner than later is that the federal dollars and the
21 private support may not be there, and that's why we think we need to
22 jump start and move forward fairly rapidly. It's not an easy question to
23 answer, but I think in Southwest, we have to find where we want to be.
24 It's timely and it's something that it's a priority and we want to move
25 forward with it quickly.

1 DELEGATE HOGAN: I'll start out my
2 comments by saying that all of these three centers, and I understand the
3 one in Southwest more than I do the others in terms of why it makes
4 sense to do that and what's available and who would play and why that's
5 important. My concerns are that in terms of what this research develops,
6 as far as the institute, so far in 6 or 7 years since its existence, I haven't
7 seen the benefit of that beyond 20 miles from its border. In my district, I
8 can't tell you or I don't know of anyone that could tell you that they've
9 seen any benefit from that. It's nothing wrong with that at this point, but
10 its been going on for 6 or 7 years, and it looks very much to us that
11 what's going on there stays right there. That's to be expected and that's
12 fine, and I have no problem with that. I'd like to see Danville and
13 Pittsylvania succeed. To follow up on Senator Wampler's comments,
14 budget restraints are what they are. I guess what concerns me is it
15 doesn't look to me like this process has included other places and other
16 ideas. If we have to ask what else is out there, we could say this is what
17 we're doing. The institute hired this gentleman to put the presentation
18 together and here we are. I don't have a problem with looking at these
19 institutions, but I think we should talk to some other institutions and we
20 could be working on ideas in Halifax or some ideas around Longwood
21 and other places have their ideas. If we're going to make a commitment
22 to do research, I don't object to it, but it seems to me that we would want
23 to be inclusive and not exclusive of other areas. It's pretty clear to me
24 that the benefits of the research tend to stay pretty close. There is an
25 argument that you could make in Southwest based on developing

1 alternative fuel and coal is a national priority, I believe, and I believe
2 that sincerely. I question the nuclear piece although I'm not opposed to
3 it. The idea that nuclear research that I'm aware of when you consider
4 what General Electric puts into it and other folks like that have billions
5 and billions of dollars, I just don't know what you're going to get out of
6 this. I'm just not sure what you'll get out of it. But it seems to me that
7 in fairness, we ought to include, when there is plenty of research to be
8 done and plenty of opportunities, it ought to include other areas.

9 SENATOR HAWKINS: I will say that over
10 the years we have talked about various technology and the advances of
11 technology and research is probably at the top of the heap of the things
12 we are doing. I still think innovation is going to be the key. We cannot
13 work cheaper than some of our friends, but we just have to work smarter
14 when it comes to innovation. That's the reason for the institute and why
15 it was put there where it is today. We've been trying to build on that
16 research component. As far as the institution in Danville, I'll simply say
17 that one reason it was located where it is for the city of Danville is that
18 the population of Danville and the infrastructure there was important as
19 far as the type of facility that is there. It couldn't have been in another
20 rural location because of their requirement for the infrastructure support.
21 It's also directly associated with the Cyber Park and close to the research
22 taking place in this rural park area in Halifax which is Riverstone, which
23 was built to compliment what was going on there. Remember, five or
24 six years for an institute that's in place in Danville is simply putting seed
25 corn in the field. It's going to take years and years to see the benefits for

1 our entire area. Bio-technology may be one that will cause all of our
2 farmers, regardless of Pittsylvania, Halifax County, Mecklenburg
3 County, to start benefiting from new ways to create cash in the field. I
4 don't want to see us get caught up in a turf war about B&D and we will
5 not go there. We need to start looking at our assets and start funding
6 things that we can do with the monies that we have available. As for the
7 nuclear piece, although this is a fairly small amount of money in the
8 scheme of things, at least it gives us a place at the table. If we're doing
9 anything, at least it gives us a mark-up and people will understand that
10 we're part of the game and we can benefit from that instead of having a
11 zero there. Personally, I hope all of them, regardless of, because it's too
12 important not to do something. This is the start of the discussion.

13 DELEGATE HOGAN: Mr. Chairman, I'm not
14 saying that, and I'm open to all of them. I'm not suggesting that we
15 should have a turf war as you say. I'm just saying there ought to be
16 more provisions made to include all of the areas.

17 MR. STEPHENSON: Mr. Chairman, the
18 planning grants for this effort were made by the Special Projects
19 Committee, and I think the Executive Committee should know that, and
20 I think the next anticipated step would be that these folks would appear
21 as a formal applicant before the Special Projects Committee for a full
22 debate as to whether this would be recommended to the Commission or
23 not. A possible step for this Committee today could be that of
24 transferring funds to the Special Projects Committee if you want for
25 them to be in a position to make an award of this type or you could make

1 that transfer at a later date. As I see it, I think that's one of the next steps
2 for this Committee to do.

3 SENATOR HAWKINS: This would only be a
4 recommendation from the Executive Committee, and I would be very
5 hesitant to make that commitment and that has to be based on a full
6 discussion. I think we need to send a message out that we're willing and
7 able to do what is necessary to get these research facilities up and
8 running based on the Commission and based on the desires of the
9 members and based on the needs. Not only that, we should not cut off
10 any discussion. Over the past several months, I've heard several
11 comments about being left out of the loop dealing with this, but there is
12 no loop to be left out of. We're all part of that discussion starting today.

13 SENATOR WAMPLER: Mr. Chairman, I
14 think what Mr. Stephenson is trying to tell us is that we've got to get the
15 pot right and a recommendation to put an item in the budget for the
16 centers and ultimately, it would be up to the application process and Full
17 Commission to make that determination. I think that's what Mr.
18 Stephenson is saying.

19 SENATOR HAWKINS: Is that right?

20 MR. STEPHENSON: Yes, that's what I was
21 trying to say. For the Executive Committee, or if you want to get the pot
22 right and set the stage for the Special Projects Committee to hear all of
23 this and bring it forward.

24 MR. OWENS: Mr. Chairman, one of the
25 questions we had before us, are these research and development projects

1 important? And I would say, “Yes, with the budget restraints, and
2 whether that would allow us to do it.” We set the budget; it’s not like we
3 don’t have the money to do it. With all that in mind, there is one thing
4 that came up, and I think it was said that there were five stated initiatives
5 or recommendations. You to three of them, but what were the other
6 two?

7 MR. WINFIELD: Coastal energy, I don’t
8 think wind was one of them, but coastal energy was one. I apologize for
9 not knowing the fifth one right off hand.

10 SENATOR RUFF: Does it have any negative
11 impact for making a motion for putting the money in Special Projects
12 today versus the next time we approve applications?

13 SENATOR HAWKINS: I think this would
14 start the process if we make a recommendation to have some funding.
15 We show our overall commitment and desires for this process or for this
16 type of research to put the funding in place.

17 SENATOR RUFF: Is that going to change the
18 timeframe of anything?

19 DELEGATE HOGAN: Mr. Chairman, I
20 would say that the answer to Senator Ruff’s question is maybe. It could
21 and could not. I don’t know if you can tell that yet. Here’s what I want
22 to avoid. We have the application process and these three centers are on
23 their way down the road. I don’t know what’s going to turn up or not
24 turn up. I’m fine with the three centers and I’m not opposed to that. All
25 I’m saying is that if we’re going to make a commitment to research and

1 development, it seems to me it's only fair but prudent to open this up a
2 little bit and let's look at applications from other folks for other things to
3 see what comes out. I'm not going to make this as a motion yet. It
4 would be my thought that we might designate 40 million to look at the
5 potential up to five centers to do this R&D and take applications. Like I
6 said in my first comment, it is my understanding of where we are with
7 some of the coal technology, that one we need to do right quick. I
8 believe it's a real advantage to go ahead and work on all of these things
9 as quickly as possible. I certainly don't want to do anything that would
10 slow that down. The other two, I have some questions about as we walk
11 through them. I'm not opposed to them, but it seems to me that if we
12 want to do this, we ought to (a) we're going to invest in R&D and open
13 it up to five centers and have \$40 million dollars and we'll look at this.

14 MR. OWENS: This would go through Special
15 Projects.

16 SENATOR HAWKINS: The applications
17 would go through Special Projects.

18 DELEGATE KILGORE: Mr. Chairman, if we
19 go ahead and make a motion today by the Executive Committee, all we
20 would be doing is authorizing the application process with Special
21 Projects, we're not approving anything.

22 MR. WAMPLER: Mr. Chairman, I would ask
23 Staff to be critical of my comment. It would seem to me that after
24 Stephanie gives her presentation, we'll understand what the overall
25 spending plan for the Commission is or is proposed to be, and then we

1 can decide if the cash flow is correct. We'll have an opportunity
2 between now and year-end to capitalize or set aside funds for some
3 larger projects so that we have flexibility for the balance of the year,
4 which is I think, the reason why we're getting briefed today in the details
5 that we are.

6 SENATOR HAWKINS: We can invade the
7 corpus from what we are doing, but we're going to need a couple of
8 years to build a capital reserve.

9 SENATOR WAMPLER: But Mr. Chairman,
10 what I'm saying is, if we get through and understand where we are, I
11 think this will come into pretty clear focus of what we need to do. All
12 we're doing is setting dollar amounts on a line item in the budget, then
13 when it opens up for applications, it will come before the Commission to
14 make a determination. That's what I was trying to say.

15 MR. WINFIELD: May I make one other
16 comment related to this nuclear energy which you've brought up several
17 times. The nuclear energy industry is in complete reemergence. I
18 believe there are 30 some nuclear plants in this industry in the country
19 now already approved and ready to start development, a hundred and
20 some, I believe. That industry is heavily staffed by people who are
21 within 10 years of retirement. They have needs for hundreds of qualified
22 engineers to serve that industry across the country. The companies in
23 the Bedford and Lynchburg area, and they have needs for hundreds of
24 engineers in the short term. The universities across the country need
25 nuclear engineers. Some of those academic programs have been closed

1 out for lack of qualified candidates and there is not a sufficient supply in
2 this country. A center like this that is located close to that industry in the
3 region will help them from a workforce development standpoint and not
4 just classroom education but give them real work in research and
5 development projects so graduate and undergraduate students can be
6 engaged in this and go forward.

7 SENATOR HAWKINS: We could talk about
8 this all day. I think we all understand the importance of this. We
9 understand it's going to require a great deal of money from us to be able
10 to do what needs to be done. We need to deal with this in the budget.

11 MR. STEPHENSON: I do think that Senator
12 Wampler brought up a good point concerning next year's budget.

13 SENATOR HAWKINS: I would like to make
14 one point. We have already invested millions of dollars in bio-
15 technology, and I'd like to have that be part of the overall research
16 component that we have funded. We've universally dealt with that
17 rather than trying to doing something completely separate. Does that
18 make sense? Put all of our efforts under one umbrella rather than trying
19 to do things in different places, wasting what capital we have. All right,
20 having said that, any other comments before we move on?

21 MR. STEPHENSON: Mr. Chairman, I have a
22 TROF transaction, and I need to present to you and it's an older TROF
23 that failed. We talked about this before back in October when a
24 representative from Global Tech in Henry County came and talked to
25 you about difficulties he had in his business. I can give you the whole

1 story if you want it, but for right now, I'll give you an abbreviated
2 version. This was a transaction that we did in 2003 wherein Global Tech
3 promised 150 jobs among other things within 30 months. At the 30-
4 month mark, they had done half of that, and the Commission extended
5 the time period for an additional 12 months during which there was no
6 material progress. We re-evaluated and of the 150 jobs promised,
7 Global Tech has produced 64 jobs. If you will recall, the Global Tech
8 principle appeared before you and pled for relief from making the
9 refund. At that time, you delayed your decision until January. Then in
10 January, the Committee asked that Global Tech supply financial
11 statements to the Committee as the basis for making the decision. We
12 have pressed Global Tech for their financial statements, and the only
13 thing I've been able to get is 2004 and 2005 unaudited statements.
14 Commissioner Day was one of the individuals that asked for the
15 statements. I have shared those with him. I have not distributed them
16 for confidentiality reasons. I'm back in front of you today asking
17 whether or not you want to enforce the collection of a refund from
18 Global Tech or Henry County.

19 SENATOR HAWKINS: It's my
20 understanding that we agreed to work with them based on some
21 assumptions and that would have been being able to see their financial
22 statement and profit and loss statements to help make a decision on the
23 impact of this on the company, correct?

24 MR. STEPHENSON: I would say, Mr.
25 Chairman, that you certainly asked for the statements and I don't recall

1 any parameters being set other than you wanted to see them.

2 SENATOR HAWKINS: But I believe it was
3 implied.

4 MR. STEPHENSON: Mr. Day may want to
5 comment on what he saw as far as the statements.

6 SENATOR HAWKINS: I understood that we
7 do not have the statements. We have something that is four years old.

8 MR. STEPHENSON: They are unaudited, and
9 I was unable to get Global Tech to produce the current financial
10 statements.

11 MR. DAY: Mr. Chairman, the statements are
12 worthless, and they are not worth the paper they're written on. I would
13 make a motion that we enforce the agreement.

14 MR. BRYANT: I second.

15 SENATOR HAWKINS: Any other
16 discussion?

17 DELEGATE KILGORE: How much are we
18 talking about?

19 MR. STEPHENSON: A refund of 40,000, I
20 think it's 40,000, but I need to check that.

21 SENATOR HAWKINS: Is there any reason
22 we should not? Is there anything out there that we need to be apprised of
23 that we don't know about?

24 SECRETARY GOTTSCHALK: Mr.
25 Chairman, is there any prospect that they will get more jobs? Have they

1 said anything in those papers that indicates that they're going to move it
2 all?

3 MR. STEPHENSON: They have told their
4 story to us quite thoroughly. It's basically one of a declining market,
5 globalization of their products, and a lot of their market is going
6 overseas and their inability to perform under those conditions. They do
7 not anticipate being able to make the hurdles that they originally
8 promised.

9 SECRETARY GOTTSCHALK: Would the
10 imposition of the refund under the agreement cause them go into
11 bankruptcy or close the plant? We'd lose the 65 or 64 jobs?

12 MR. STEPHENSON: The principles from
13 Global Tech have said to us that they were financially unable to make
14 the refund. That's the statement to us. It's hard to know that when you
15 don't have the updated financials.

16 SENATOR HAWKINS: Have you talked to
17 Henry County?

18 MR. STEPHENSON: I've talked to Henry
19 County, and they have been very cooperative and forthcoming with
20 whatever we needed to have.

21 SENATOR HAWKINS: What is their
22 opinion?

23 MR. STEPHENSON: Their opinion is that
24 they are not liable under the contract, and you do whatever you want.

25 SENATOR HAWKINS: Without trying to

1 postpone this, we need to make sure that we don't lose 65 jobs. Would
2 you mind making one last effort and going back to the company and ask
3 them to submit good cause why we should not collect the money based
4 on the financial condition of the company. That if we're not supplied
5 information based on the financial structure, what they're making and
6 what they're losing or whatever, we need to know that. If not, we're
7 going to take steps to collect the money. Is that agreeable?

8 MR. STEPHENSON: I will do that.

9 DELEGATE HOGAN: Mr. Chairman, it's got
10 to be more than we just can't pay it.

11 SENATOR HAWKINS: We need the figures
12 on paper that mean something. Barnie, if you wouldn't mind working
13 with Ned on this. Two bankers ought to be able to squeeze blood out of
14 a turnip. I'm looking forward for you to be able to do that.

15 MR. DAY: Mr. Chairman, let me make this
16 point. I assume the information they sent us is the best picture they
17 could paint, but it was dreadful. I think we're basically whistling in the
18 wind on this one. I don't think the company is going to provide, and if
19 in fact, they're still in business today.

20 MR. FERGUSON: Mr. Chairman, just so I
21 understand for purposes of the minutes, a motion or the direction is to
22 make a final effort through the good offices of Mr. Stephenson and Mr.
23 Day to collect without further enforcement activity, but failing that in
24 their judgment and failing to obey, you're then authorizing the
25 Commission's staff to go forward with their forms of collection?

1 MR. DAY: I interpret what you're asking us
2 to do is to direct them to show cause why we should not take action to
3 collect.

4 SENATOR HAWKINS: Based on the
5 financial condition of the company, we need to know what we're dealing
6 with, and obviously, we don't know. A 4-year-old financial statement is
7 like, once upon a time.

8 MR. STEPHENSON: Mr. Chairman, would
9 you want for this committee to make a determination on those findings,
10 or do you want--

11 SENATOR HAWKINS: --No, we've already
12 made a determination in this committee that we need to collect those
13 things that are owed to us when they're not living up to our agreement
14 with them. I think we as a group, based on your and Bernie's
15 recommendation, I'll make a decision at that point and take the
16 Commission off the hook because we've already made a decision.

17 MR. STEPHENSON: I have what I need then,
18 thank you.

19 MR. DAY: I will withdraw my first motion.

20 SENATOR HAWKINS: All right. The next
21 item on the agenda, Stephanie.

22 MS. WASS: You have in front of you a
23 revised version of the proposed FY09 budget that should be included in
24 your folder. The revised proposed budget for FY09 is a total of \$74.5
25 million and 39 of that would be coming from the endowment or corpus

1 invasion and 36 million of that is from interest earnings. These are
2 interest earnings for the past year, so these are monies that are in the
3 bank which you'll be using to fund the FY09 budget. In the budget,
4 51.89 million is set aside for Economic Revitalization and 20.6 million is
5 Indemnification. Under the Administration budget, it totals \$2.1 million.
6 This is about 3% lower than the FY08 budget and we're trying to follow
7 the state in trying to reduce our budget and limiting our contractual
8 services and travel, though it's lower than FY08, and is 2.8% of the total
9 proposed budget. This funds the Staff and includes 355,000 for
10 indemnification processing with Troutman Saunders and 438,000 for
11 appropriation and transfers, specifically for the Office of the Attorney
12 General, MSA Enforcement and Central Service Agencies, and charges
13 for uses of the Department of Treasury, all central agencies. On the
14 Indemnification, we're proposing 20.6 million for payout in 2009.
15 That's 14.3 million for Flue-Cured, 6.3 million for Burley. The split
16 between those is basically taking the available budget and
17 proportionately distributing those between the two types of tobacco
18 based on the remaining obligation of those two types. After the 2009
19 payment, we would have 91% indemnification of the farmers with the
20 remaining obligation of 41.2 million. There is no change in the
21 databases and shouldn't change the payout for next year. Our current
22 contract does expire in 2008, so we need to issue a new RFP for 2009
23 indemnification.

24 If you look at the budget historically, and it's difficult to
25 look at any one year because two years that we've had securitization, the

1 budgets are a lot larger than in previous years. I think if you take a four-
2 year average and compare it to what we're proposing today, it falls
3 pretty much in line with the average over the last four years. Going a
4 little further into the details of the program budget, you have all of the
5 details in your papers, but these are the amounts for particular programs
6 that we're proposing. The Tobacco Commission's endowment and the
7 interest earnings was 35.7 million, and that's for the period of March of
8 '07 to February of '08. Our current endowment balance is 797.9 million.
9 With this budget, we are proposing a 5.4% corpus invasion which would
10 be \$43.2 million to fund the FY09 budget in full, and then a small
11 portion of that is to refund the remainder of FY08. In addition to the
12 endowment, we do have the actual ticker funds. There is a 183 million
13 in it. A lot of the funds are already obligated but are not disbursed yet.
14 Are there any questions?

15 DELEGATE KILGORE: We need a motion.

16 DELEGATE HOGAN: I have a comment and
17 a question. In Technology, we had a discussion with Southside about
18 what direction we might go with these funds. Certainly, we're trying to
19 meet with the folks and talk about what direction. I don't know if I've
20 had a chance to talk to you about this as Southwest. To do the same and
21 then sort of figure out, we've been doing the same things for the last two
22 or three years, at least in Southside and maybe we'll be going in a
23 different direction in trying to sort that out.

24 DELEGATE KILGORE: Our group had a
25 meeting today trying to figure out the route we want to take, hopefully,

1 next Friday too.

2 DELEGATE HOGAN: I guess I'm asking you
3 all to do that and we'll probably do the same. That was my comment.
4 My question is, I'm assuming from looking at this budget, Research and
5 Development money is coming out of the Reserve account. I assume
6 that's where it's coming from.

7 MR. NOYES: It's not anywhere else that it
8 would come out of.

9 DELEGATE HOGAN: My thought about that,
10 about what we talked about a few minutes ago, is we had another budget
11 that showed a larger invasion. It contemplates certain mega sites. If we
12 invaded the corpus another 35 million, my thought is that move forward
13 and put some money in Special Projects. This might be the difficult part.
14 If we put some money for the five research centers or Research and
15 Development, I guess that's in the form of a question. I would make that
16 as a question.

17 DELEGATE KILGORE: Are you making a
18 proposal that we add \$11 million or whatever we need to get it up to \$40
19 million?

20 MR. OWENS: We probably need another 2
21 million in Special Projects if we're going to fund this cancer research
22 business, I would think.

23 SENATOR WAMPLER: You're talking about
24 13 million? You say R&D. I'm thinking back. It was 8 million for
25 R&D for these centers if I understood.

1 MR. NOYES: \$24 million total and there is
2 some variation among the cost for the individual three that are on the
3 table, which you heard today.

4 SENATOR WAMPLER: In a funding way, I
5 think another 8 million for purposes of at least for line items for the
6 R&D center and that would be consistent, or I'm asking if that's
7 consistent or inconsistent? You said 11 million and I think all we need
8 is 8 for planning purposes in trying to keep them all.

9 DELEGATE HOGAN: We have 29 and I was
10 thinking that we were looking up to 5. We have 29 and you have to add
11 11.

12 DELEGATE KILGORE: I think it's
13 authorizing up to 40, but we're not approving--

14 DELEGATE HOGAN: --I guess what I'm
15 saying is if you set aside 40 million and if you just want to do 32, that's
16 something we can talk about. My question is, if we do that, then that
17 money could go to Special Projects and they could be designated for that
18 reserve not to be used on something else in Special Projects and then
19 move forward. I think that's all we're doing.

20 SENATOR HAWKINS: My understanding is
21 that Clarke is proposing that we put aside monies that would give us the
22 flexibility to do more than three if we want to.

23 MR. NOYES: As a reminder,
24 recommendations up to 10% would require at our Board meeting on the
25 29th a majority vote, beyond 10% would require the super majority. You

1 can go up to 36.6 beyond which you see here and will not require a super
2 majority on the 29th.

3 MR. DAY: Mr. Chairman, before we spend all
4 of this reserve money, I want to go back and address that cancer request
5 we had earlier. It would seem to me that we need to raise the elevation
6 of that out of Special Projects and put a line item called Healthcare
7 Reserve or some such and hang some money on it.

8 SENATOR HAWKINS: Discussion on your
9 recommendation which is basically doing the same thing through
10 another door.

11 MR. DAY: Yes, but it doesn't get lost in
12 Special Projects.

13 DELEGATE HOGAN: Mr. Chairman, if you
14 want to do that, my math says you need to get 13 more, 11 plus 2, and
15 designate it the same way we're going to designate this 40, two of it to
16 be considered for healthcare or whatever Mr. Day said.

17 SENATOR HAWKINS: The disadvantage of
18 putting a line item in the budget would be that we might open it up for a
19 thousand applications from various groups and then just focus on cancer
20 research and Special Projects fully understands that. We already know
21 where we are going, and Special Projects is capable of handling this the
22 way they are structured, but they also have the knowledge of what's
23 going on in some of these areas. I think it would be helpful to leave it
24 where it is. That's my opinion.

25 SENATOR WAMPLER: Mr. Chairman, my

1 view is not altogether dissimilar. I would say I agree that we ought to
2 fund what was asked for, but we need to see those applications first, and
3 I would think that's our fiduciary responsibility. I have no reason to
4 believe they're not going to be everything they told us they are going to
5 be. I would also caution the Executive Committee as we have, at least I
6 would the Full Commission, I don't know if we create a line item, it
7 almost appears we're going to fund it in perpetuity. I don't know that
8 I'm willing to say that we're going to do that.

9 MR. DAY: That point is well made, and I
10 concede.

11 DELEGATE HOGAN: Mr. Chairman, is the
12 way to handle it to add 2 million to Special Projects and talk about the
13 rest of it?

14 SENATOR HAWKINS: That would simplify
15 everything.

16 DELEGATE HOGAN: And then Special
17 Projects can work it out.

18 SENATOR HAWKINS: We understand fully
19 that we're going to embark on two fairly extensive programs, one is a
20 multi-million dollar and multi-years, and one being one time. I think we
21 all understand that, and it's a question of putting the money in place.
22 Senator Wampler, what comfortable figure do you have in mind to come
23 up with?

24 SENATOR WAMPLER: You can only turn so
25 much water into wine. I know we need to properly capitalize it. If we

1 are successful in invading the corpus, \$2 million ought to be directed
2 towards Special Projects above what Stephanie recommended which is
3 7.5 million; it would 9.5 million.

4 SENATOR HAWKINS: I'm going to be
5 optimistic. We represent most of the Commission members in the areas
6 that we've been discussing. If we put together this type of proposal, I
7 don't think we're going to have a push back from the whole Commission
8 to dealing with it because they fully understand the importance of it, so I
9 think we ought to be able to go ahead and fund it with the money that's
10 available and move on.

11 MR. OWENS: You're talking about putting
12 \$2 million in Special Projects and to amend the budget here proposed,
13 put 2 million more in Special Projects and then fund the reserve up to 40
14 million?

15 MS. WASS: Adding 11 million.

16 MR. OWENS: Eleven million in reserve.

17 DELEGATE HOGAN: That's what I was
18 contemplating and Senator Wampler may have said it a different way.
19 On the 40 million, I do think it's important that we set aside that chunk
20 for Special Projects, but that that money is to be used up to five research
21 projects. If you've got \$49 million, no telling what will be thrown at
22 you. My math says you've got 13; you have to get 13 more, and that
23 would be 2 million of additional funds undesignated to Special Projects
24 and 40 million for Research and Development.

25 SENATOR HAWKINS: Do you have a

1 motion for that?

2 SENATOR RUFF: Mr. Chairman, before you
3 do that, in the past years, have you not moved from reserve to the TROF
4 fund during the course of the year? If we use the whole or are we
5 talking about designating that whole reserve for the reserve projects?
6 What happens when you have a TROF application?

7 SENATOR HAWKINS: Good point.

8 DELEGATE KILGORE: Looking back at
9 TROF, you're going to need somewhere between 5 and 10 million
10 dollars, depending on how many deal closings you have and how much
11 activity you have.

12 MR.STEPHENSON: How many refunds you
13 collect.

14 SENATOR HAWKINS: Many of these
15 projects we're dealing with are going to be multi-year investments, and
16 the amount of money that we're talking about may not be all that's
17 needed in one cycle. Would it not be feasible to transfer money back
18 into TROF from Special Projects if needed?

19 SENATOR WAMPLER: As we have done
20 before.

21 SENATOR HAWKINS: Maybe we're trying
22 to create a problem that does not exist.

23 MR. STEPHENSON: Just so we can all be
24 clear, what I hear Delegate Hogan saying is that, the budget as Stephanie
25 has presented calls for an invasion of \$43 million which I think Delegate

1 Hogan is saying that we need to raise the invasion by 13 million more so
2 that the reserve of 29 will increase by that 13 million invasion.

3 DELEGATE HOGAN: That's correct with
4 one exception. That would be that the two goes straight to Special
5 Projects. We take that money and reserve and designate it right now for
6 Special Projects.

7 MR. STEPHENSON: Leaving 40 in the
8 reserve.

9 DELEGATE HOGAN: That's not what I said,
10 but I wouldn't be opposed to that. Then the question comes, my guess is
11 that Special Projects wants to go ahead and start taking applications for
12 the R&D projects. I don't guess you would mind taking them without
13 money, that's my question. I think you're better off with the money in
14 Special Projects and designate the 40 and leave the reserve fund at zero.

15 SENATOR HAWKINS: I think everything
16 that's funded, it moves back and forth as it's needed. If we need to put
17 the reserve in place by the invasion of the corpus to determine what's in
18 the best interest of what we're trying to do. Our job is to create this sort
19 of infrastructure that I'm talking about and the amounts of money that
20 we withdraw reflect that.

21 MR. OWENS: You're going to fund the R&D
22 projects in the reserve, what happens when TROF needs money?

23 MR. NOYES: Not if it's been spent on R&D
24 projects. Beyond the \$40 million I'm hearing discussion about for R&D
25 activities, some amount is my recommendation to the Executive

1 Committee, some amount be retained in a reserve status in the event that
2 the TROF program has a wonderful year, which we all hope it will.

3 DELEGATE HOGAN: Mr. Chairman, I don't
4 object to that other than to say that, my guess is that the R&D projects
5 will move relatively rapidly. I understand Neal's point and it seems to
6 me that we're pretty sure we want to spend that money there, we should
7 go ahead and send it to Special Projects and designate it for that purpose.
8 We may want to pull back some money from Technology, hold back \$2
9 million to create a reserve and do the same thing when designated
10 Special Projects. If you'd look at this, I bet we could come up with \$5
11 million from this stuff. I don't think, if you want the R&D projects to go
12 forward, you'd better fund them.

13 SENATOR HAWKINS: Speaking of
14 Technology, then what are you talking about?

15 DELEGATE HOGAN: If you said you needed
16 to make 10 this year, I don't see that as a problem.

17 MR. CHAIRMAN: If one of your five is the
18 one that C.D. is addressing, I'm not going to vote for it because if we're
19 having to go to Florida to get our questions answered, I'm not sure we
20 want to do that.

21 SENATOR HAWKINS: Let me make a
22 statement, and I understand how you feel, but it is my understanding that
23 there may be other discussions ongoing. A lot of the things we're
24 dealing with are copyrights, and other types of patents that people own
25 outside the Commonwealth, and it may be cheaper to go to some of the

1 sources rather than dealing with--

2 MR. DAY: --In all due respect, I thought that
3 was the sense I got from listening to C.D.

4 SENATOR HAWKINS: I think part of the
5 discussion, and I hate to put anything in any sort of motion that would
6 exclude what I consider one of our major assets at this point, and that
7 may happen later on.

8 MR. DAY: Mr. Chairman, just to conclude
9 what I was going to say, rather than putting five in the reserve, let's put
10 four in the reserve and put one or \$8 million back up in Special Projects
11 for the TROF eventuality.

12 SENATOR HAWKINS: We're getting
13 awfully complicated. It seems to me we're trying to get to a place or a
14 straight line and all of a sudden we've got a loop and we need to go back
15 to a straight line. What we're trying to do is find enough capital to be
16 able to do the cancer research if we can do it, and also doing the research
17 facilities and look out beyond what's been suggested with the possibility
18 of five if we think it's feasible. The only thing we're looking for is the
19 flexibility to be able to find the capital to invest in those facilities as we
20 deem are worthy of that investment. What I've asked Stephanie to do is
21 to tell me quite simply what do we need to do as far as an invasion of the
22 corpus to be able to get us to that facility that we're looking for and that
23 is the flexibility (a) dealing with the cancer, and (b) the research
24 facilities, and, of course, having "X" amount of money for TROF. If we
25 take \$2 million out of Technology, that gives us the piece we're

1 discussing with cancer. What else do we need to do to get where we
2 need to go?

3 MS. WASS: There are a number of ways you
4 can do it. You can allocate money and move it around now, or you can
5 wait until the need arises and then, as we've done in mid-year with a
6 budget amendment, move money from one line item to another.

7 SENATOR HAWKINS: Let's do that which is
8 the easiest thing to do with this budget cycle. What are you comfortable
9 with with Special Projects?

10 SENATOR WAMPLER: I'll make this
11 observation and if anyone disagrees, feel free to do so. If we're going to
12 spend it for R&D, and Special Projects is the committee that it goes
13 before, go ahead and put it there. It requires the Full Commission to
14 take action or if the Commission says there are other needs for capital
15 that's way more than our needs, then the Commission can act
16 appropriately and move it as it sees fit. The Commission can live with
17 what's appropriate.

18 SENATOR PUCKETT: Is that a motion?

19 SENATOR HAWKINS: Who has got a
20 motion that can be put into words?

21 SENATOR WAMPLER: Maybe Stephanie
22 can walk us through the spreadsheet as to where the dollars are and
23 where the dollars change so we understand it, and then I'll make a
24 motion accordingly, I would suggest.

25 MS. WASS: That the proposed budget be

1 amended so that Special Project's line items be 20.5 million. The 20.5
2 million plus the 2 million, plus the additional 11 million corpus invasion.

3 SENATOR HAWKINS: We might be totally
4 confused now.

5 MS. WASS: That would be a separate
6 amendment.

7 MR. NOYES: There needs to be a separate
8 budget amendment because it's FY08 funds. It's a 2-step process.

9 MS. WASS: The FY08 budget amendment
10 moves the remaining reserve account balance to Special Projects.

11 SENATOR WAMPLER: That's 29.1 million.

12 MS. WASS: \$29,185,339.00.

13 DELEGATE KILGORE: I'll make that
14 motion.

15 MR. OWENS: Second.

16 SENATOR HAWKINS: It's been moved and
17 seconded that that transfer be made.

18 DELEGATE HOGAN: Mr. Chairman, that
19 money is to be designated for R&D out of Special Projects.

20 DELEGATE KILGORE: I'll accept that
21 amendment.

22 SENATOR HAWKINS: Does everyone
23 understand the amendment? All those in favor say aye? (Ayes.)
24 Opposed? (No response.) Motion carries. Stephanie.

25 MS. WASS: Secondly, the proposed budget be

1 adopted with one amendment that the Special Projects line item be
2 amended upwards of 20.5 million. That would be a 7.5 million
3 proposed, plus 2 million, plus the 11 million.

4 SENATOR WAMPLER: Don't we have to
5 propose to invade the corpus before we do that, isn't that the step?

6 MS. WASS: I don't know. The endowment
7 be invaded by \$56,181,220 for FY08.

8 SENATOR HAWKINS: It's been moved and
9 seconded that the corpus be invaded beyond that, which the
10 recommendation--

11 MS. WASS: --You're still under the 10.

12 SENATOR HAWKINS: Does everyone
13 understand? All in favor say aye? (Ayes.) Opposed? (No response.)
14 The motion is carried.

15 MS. WASS: The FY09 proposed budget be
16 approved with one amendment to the Special Projects line item that
17 would increase that amount to 20.5 million.

18 DELEGATE HOGAN: Mr. Chairman, with
19 the amendment that the \$11 million be added to the 29 creates the \$40
20 million reserve fund for R&D.

21 SENATOR HAWKINS: Does everyone
22 understand the amendment as proposed? I'm hearing no objection, is
23 there a second to that?

24 MR. OWENS: Second.

25 SENATOR HAWKINS: Any questions? All

1 those in favor say aye? (Ayes.) Opposed? (No response.) The motion
2 carries. How about the \$2 million off Technology, do you still need
3 that?

4 MR. OWENS: Did we address the reserve?

5 MR. NOYES: We have not addressed
6 additional funds to be available for TROF, albeit, we may not need it.

7 DELEGATE HOGAN: Mr. Chairman, in
8 terms of addressing that, we've got Education, we've got Special
9 Projects, and we've got Technology where we could potentially go and
10 get Southwest and Southside if we need to. There are five places to go
11 and get the money. I don't think we're planning on spending all of our
12 budget promptly. So I guess with direction from the Chair, we're not
13 allocating all of our resources, and if we need to move TROF money in
14 October, we can certainly address that.

15 SENATOR HAWKINS: Bottom line, it's up
16 to us to be able to fund those things and obligate things, and if TROF
17 needs money, we'll find it.

18 MR. OWENS: If we're not going to take
19 another 10%, why not have the money in reserve for TROF?

20 SENATOR HAWKINS: I can't answer that.

21 MR. OWENS: If it's not going to take us
22 above the 10%, what would be the problem with putting the 5 million in
23 the reserve for TROF?

24 MR. NOYES: There is no constraint on this
25 committee to do that. Delegate Hogan has said that he believes there are

1 ample funds from other committees, that if they could or if it is required,
2 that they could--

3 SENATOR HAWKINS: --We're discussing
4 something that I don't think, if in fact something happens, we have
5 10,000 opportunities to invest, we'll find the money. This gets us started
6 on obligations. Number 1, we're going to look to these research centers
7 to find out what is in our best interest, and number 2, we're going to deal
8 with the cancer centers. The only thing we're doing is setting money
9 aside for that. When it comes to other obligations like TROF, we'll fund
10 those if we need to.

11 MR. OWENS: How many times can we
12 invade the corpus?

13 MR. NOYES: We can invade it up to the 15%
14 in a given year.

15 SENATOR HAWKINS: We have that
16 flexibility, but we don't want to create more problems. We have before
17 us an amended variation of the budget. Everybody has had an
18 opportunity to see and act upon the recommendations that this budget
19 includes. Any more discussion on the budget or the amendment? Is
20 there a motion on the budget as presented? It's been moved and
21 seconded that the budget as amended be recommended to the Full
22 Commission. All those in favor say aye? (Ayes.) Opposed? (No
23 response.) God bless you.

24 SENATOR WAMPLER: Mr. Chairman, I
25 want to bring to the attention of the Executive Committee once again,

1 and we did this in January. As a result of the efforts of two localities,
2 which are the counties of Washington and Smyth trying to aggressively
3 recruit a major manufacturer in our region, the localities extended some
4 \$225,000 at the intense urging of the Virginia Economic Development
5 Partnership. In January, the Executive Committee said that we were
6 inclined to recommend reimbursement to those two localities. The
7 question was, exactly how much and which entity actually spent? It
8 turns out that it was the Regional Authority so I would ask the Executive
9 Committee to entertain or to recommend to the Full Commission that we
10 transfer from the reserve account in FY08 \$225,000.

11 SENATOR HAWKINS: Does everybody
12 understand this request? Any discussion? A motion has been made, is
13 there a second?

14 SENATOR PUCKETT: Second.

15 SENATOR HAWKINS: A motion has been
16 made and seconded that this transfer be made for this amount of money
17 for the purposes stated. Any discussion? All those in favor say aye?
18 (Ayes.) Opposed? (No response.)

19 MR. NOYES: I would note for the record that
20 applications are in hand at the office for these funds. This matter in the
21 committee meeting of Southwest Economic Development Committee is
22 scheduled before our Full Board meeting on the 29th to deal with this
23 matter. Our Chairman graciously covered two of the points in the
24 Executive Director's report earlier. The Blue Ribbon Advisory Panel
25 adopted its report on Monday, April 14th. The report is to be provided

1 next week and there will be 22 specific recommendations. Senator
2 Hawkins previously indicated that the Long-Range Planning Committee
3 chaired by Delegate Byron is to receive copies of the report and provide
4 recommendations to the Commission at a Board retreat. Delegate Byron
5 will advise Staff of the schedule of her committee meeting.

6 The second point, the Commission bylaws call for four
7 Commission meetings a year, and I don't think we need to say anymore
8 if the Executive Committee is deferred any action on that.

9 DELEGATE HOGAN: Mr. Chairman, I kind
10 of like having these, but I will certainly defer. If we could somehow put
11 the Executive Committee together with the main Committee meetings,
12 we're meeting one day a week, three or four weeks ahead of the Full
13 Commission meeting every time, and for those of us that have to work
14 for a living, I can come to Roanoke for two as well as one, and I think
15 some other people share that same feeling. Maybe we could have the
16 Executive Committee meet at the same time, basically meet at one time
17 and then the Full meeting.

18 SENATOR HAWKINS: You've got to work
19 full time.

20 DELEGATE HOGAN: Is that a reasonable
21 request?

22 SENATOR HAWKINS: Let's delay that
23 discussion until we find out how we want to structure the committees
24 themselves. I think for the Executive Committee, it certainly makes
25 sense to have the same day as the Commission meeting, maybe the night

1 before. We can discuss that at another meeting.

2 MR. NOYES: Finally, the administrative line
3 item for fiscal year 2009 is sufficient for the addition of one Staff
4 position at the Richmond office. I'm asking the Executive Committee to
5 authorize a post-approval Program Manager position with the
6 responsibility for collecting analysis of project outcomes data,
7 preparation of reports for Committee uses, and to meet Commission
8 obligations for Virginia performs. This position would report to Mr.
9 Stephenson. I'd like to offer the job to Ms. Nelson. If you approve this,
10 it will be necessary to advertise a new Southside Coordinator employee.
11 If you are in agreement, the Commission will employ and staff, as
12 Stephanie said or was budgeted at the same number when I joined the
13 Commission.

14 SENATOR HAWKINS: Any discussion on
15 that? I think it makes sense and I certainly support it. When we start
16 adding, we need to keep in mind that if we do away with the Southside
17 allocation formulary, do we need to have a person in place to work with
18 the smaller counties and to be able to deal with applications to do the
19 things that larger counties have infrastructure to do. I don't feel
20 comfortable allowing the smaller counties to apply without some sort of
21 knowledgeable help from the Staff and to be able to do the applications
22 and do the forms. We may have to look at one other position some place
23 to work with localities when it comes to paperwork, applications, and
24 being able to find a way to even work with the federal and state funding
25 programs as well.

1 MR. OWENS: I move we accept that
2 recommendation.

3 DELEGATE HOGAN: Second.

4 SENATOR HAWKINS: It's been moved and
5 second. Any discussion? For those in favor say aye? (Ayes.)
6 Opposed? (No response.)

7 DELEGATE JOHNSON: What about the
8 Board meeting on Special Projects?

9 MR. NOYES: I recommend you talk to the
10 Chairman of the Special Projects Committee. It's included within the
11 existing approved budget somewhere.

12 SENATOR HAWKINS: It's in fine print.
13 Does that complete your report?

14 MR. NOYES: Yes.

15 MR. FERGUSON: Mr. Chairman, if I might
16 take a moment to make a quick report on the MSA payments that were
17 made earlier this week. As you all are aware, we have an ongoing
18 dispute with the manufacturers or what's called the MPN adjustment.
19 For the last several years, some of the companies withheld payment and
20 others have not. That fell true to form this year and Philip Morris made
21 its full payment while retaining its right to dispute past payments. RJR
22 and Lorillard put their disputed portion in place, but the bottom line is
23 that the payment we received as of yesterday was approximately \$126
24 million total for the Commonwealth and we expect a few more million
25 to trickle in this week, payments that came a little bit late after the

1 disbursement deadline. I think it's about 130 million total which is
2 consistent with years past. Half of that goes towards the bond holders.

3 SENATOR HAWKINS: When it comes to the
4 actual funding, the Commission no longer is affected by that, is that
5 true?

6 MR. FERGUSON: Not directly, no, sir.

7 SENATOR HAWKINS: Any public
8 comments? Before we adjourn, I'd like to thank you all for a long day.
9 We had some major things to talk about. Delegate Byron is very
10 emphatic about the news of this facility in Bedford, and we need to put
11 that in the record because she has called several people talking about
12 how important this is for that area. Having said that and getting back to
13 the Blue Ribbon Commission, we need to get together and have a retreat
14 and go over the recommendations to the Commission and hear from the
15 committee some time very soon. I'd like for us all to be open-minded
16 and be willing to adapt to some of the recommendations as best we can
17 and also look at the structure of the Commission, and if you have any
18 ideas how we can make these committees work better in the structure of
19 the realities of this world. Having said that, anything else to come
20 before the Committee? If not, we're adjourned.

21

22 PROCEEDINGS CONCLUDED.

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1 CERTIFICATE OF THE COURT REPORTER

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5 I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at

6 Large, do hereby certify that I was the court reporter who took down and

7 transcribed the proceedings of the Virginia Tobacco Indemnification and

8 Community Revitalization Commission, Executive Committee Meeting,

9 when held on April 17, 2008, at 11:00 AM in the Pocahontas Room,

10 Hotel Roanoke, Roanoke, Virginia.

11 I further certify this is a true and accurate

12 transcript to the best of my ability to hear and understand the

13 proceedings.

14 Given under my hand this 9th day of May,

15 2008.

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17

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Medford W. Howard

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Registered Professional Reporter

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Notary Public for the State of Virginia at Large

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23 My Commission Expires: October 31, 2010.

24 Court Reporter #224566

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